

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03
NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15
AID-05 COME-00 EB-08 FRB-01 TRSE-00 XMB-04 OPIC-06
CIEP-02 LAB-04 SIL-01 OMB-01 ACDA-10 /111 W
-----251613Z 038134 /44

R 251510Z JAN 77
FM AMCONSL TURIN
TO SECSTATE WASHDC 0664
INFO AMEMBASSY ROME
AMCONSUL FLORENCE
AMCONSUL GENOA
AMCONSUL MILAN
AMCONSUL NAPLES
AMCONSUL PALERMO
AMCONSUL TRIESTE

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E.O. 11652: N/A
TAGS: ECON, EFIN, BEXP, IT
SUBJ: TURIN CITY FIGHTS NEW GOI LOAN PROCEDURES
FOR MUNICIPALITIES

REF. 76 TURIN 0251

1. SUMMARY. STRONG, NEGATIVE REACTION FROM TURIN CITY
OFFICIALS TO RECENT DECISION BY ITALIAN TREASURY MINISTER
CENTRALIZING FUTURE BORROWING OF MUNICIPALITIES UNDER ONE
INSTITUTION, NATIONAL DEPOSIT AND CREDIT FUND -- CDP (CASSA
DEPOSITI E PRESTITI). DECISION DESCRIBED AS: A) LARGELY
POLITICALLY MOTIVATED B) REPRESENTS SIGNIFICANT INDICATOR
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OF IMPOTENCY OF TURIN LEFTIST GIUNTA VIS-A-VIS CENTRAL
GOVERNMENT AND C) IS TIMELY MOVE ON PART OF GOI GIVEN 41
BANKING POSITIONS CURRENTLY UP FOR NOMINATION. END SUMMARY.

2. TURIN CITY ADMINISTRATION EXPECTS FURTHER FINANCIAL
DIFFICULTIES AS A RESULT OF RECENT DECISION BY ITALIAN
TREASURY MINISTER STAMMATI REQUIRING ITALIAN MUNICIPALITIES

TO APPLY EXCLUSIVELY TO NATIONAL DEPOSIT AND CREDIT FUND OR CDP (CASSA DEPOSITI E PRESTITI) FOR FUTURE SHORT-TERM LOANS. MOREOVER, UNDER NEW LEGISLATION, MUNICIPALITIES WILL ONLY BE PERMITTED TO REQUEST LOANS FROM CDP ON QUARTERLY BASIS AND TOTAL AMOUNT OF SUCH QUARTERLY LOAN REQUEST WILL NOT BE ABLE TO EXCEED 3/12 S OF MUNICIPALITY S DEFICIT OF PREVIOUS YEAR. IT IS ALSO ANTICIPATED THAT CDP LOANS SHOULD CARRY 15 PERCENT INTEREST RATE WITH REPAYMENT OVER A TEN-YEAR PERIOD.

3. TURIN S CURRENT PUBLIC DEBT IS ESTIMATED TO BE AROUND 330 BILLION LIRE. CITY ADMINISTRATION OFFICIALS SAY SHOULD CITY BE FORCED TO OBTAIN FUTURE SHORT-TERM LOANS ONLY FROM CDP AT PRESCRIBED INTEREST RATE TO PAY CURRENT DEBTS, CITY S PUBLIC DEBT (COMPOUNDED) COULD REACH 660 BILLION LIRE OR 66 BILLION LIRE ANNUALLY. MOREOVER, IN THE PAST TURIN ADMINISTRATION WAS NOT REQUIRED TO PAY IMMEDIATE INTEREST ON SHORT-TERM LOANS BORROWED FROM LOCAL BANKS AT INTEREST RATE OF 20 TO 22 PERCENT. UNPAID ACCRUED INTEREST WAS ADDED TO PRINCIPAL AND INTEREST RATE WAS THEN APPLIED TO BOTH PRINCIPAL AND ACCRUED INTEREST (N.B., INTEREST ON INTEREST). CDP REGULATIONS, HOWEVER, WOULD MEAN CDP WOULD HAVE TO INSIST ON PERIODIC PAYMENT OF ACCRUED INTEREST. IN ADDITION, CDP WOULD NOT BE ABLE TO PROVIDE LOANS FOR CITY S MONTHLY OVERHEAD EXPENSES INCLUDING SALARIES OF CITY EMPLOYEES.

4. TURIN CITY HALL SOURCE INFORMS US THAT MUNICIPAL AUTHORITIES ARE GREATLY CONCERNED ABOUT DECISION SINCE UNCLASSIFIED

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CITY IS NOT IN FINANCIAL POSITION TO PAY MONTHLY OVERHEAD COSTS AS WELL AS POSSIBLE 66 BILLION LIRE ANNUALLY.

5. SOURCE INDICATED THAT STRONG NEGATIVE REACTION FROM ASSOCIATION OF ITALIAN MUNICIPALITIES (ANCI) MIGHT RESULT IN REVISION OF TREASURY DECISION WITHIN NEXT SIXTY DAYS. ANCI OFFICIALS MET ON FRIDAY, JAN. 20, 1977 TO DISCUSS MATTER. ANOTHER MEETING IS PLANNED BY ANCI FOR FEB. 8 TO DISCUSS STAMMATI S DECISION ON NATIONAL LEVEL.

6. COMMENT:

A. TURIN CITY ADMINISTRATION IS FINDING IT MORE AND MORE DIFFICULT TO OBTAIN FUNDS FROM THE CENTRAL GOVERNMENT TO FINANCE ITS BASIC OPERATING COSTS. IN ADDITION, GOI HAS REFUSED TO GRANT THE CITY ADMINISTRATION A LOAN REQUESTED LAST SEPTEMBER FROM U.C.I.P.U. (GOI ORGANIZATION EXTENDING SPECIAL CREDIT TO FINANCE PUBLIC UTILITIES) WHICH WOULD HAVE COVERED AT LEAST 50 PERCENT OF TURIN S PRESENT TOTAL DEBT. TURIN MAYOR NOVELLI HAS ALSO BEEN UNABLE TO OBTAIN

THE 100 BILLION LIRE DEBENTURE LOAN HE REQUESTED FROM THE ITALIAN GOVERNMENT. (OUR SOURCE INDICATED THAT CITY ADMINISTRATION HAD ANTICIPATED MORE RECEPTIVE RESPONSE FROM GOI FOR DEBENTURE LOAN SINCE GOVERNMENT WOULD NOT HAVE BEEN REQUIRED TO PROVIDE IMMEDIATE CASH. IT APPEARS, HOWEVER, FOR THE TIME BEING GOI HAS TABLED DEBENTURE LOAN REQUEST.)

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.... LOAN REQUEST.)

B. WHEN THE TURIN LEFTIST GIUNTA TOOK POWER IN JUNE 1975, TURIN S PUBLIC DEBT WAS ESTIMATED AT 150 BILLION LIRE FOR PRINCIPAL ALONE. AT THAT TIME, TURIN S PUBLIC DEBT WAS NOT A MAJOR ELECTORAL ISSUE. A MAJOR CONCERN, HOWEVER, WAS THE PERCEIVED INABILITY OF THE FORMER CENTER-LEFT GOVERNMENT (DC-PSDI-PSI-PRI) TO PROVIDE SERIOUSLY NEEDED HOUSING, EDUCATIONAL AND HEALTH FACILITIES. AFTER 20 MONTHS IN OFFICE, PRESENT LEFTIST GOVERNMENT HAS DISCOVERED THAT IT IS ALSO UNABLE TO PROVIDE THESE FACILITIES PRIMARILY AS A RESULT OF ITS INABILITY TO PROVIDE PUBLIS FINANCING WHICH IN LARGE PART RESULTED FROM RELATIVELY LESS FUNDS RECEIVED FROM GOI FOLLOWING 1973 FISCAL REFORM (FIXED REVENUE DISTRIBUTION FROM CENTER WHICH HAS SINCE NOT

BEEN REVISED BASED ON FLATIONARY OR OTHER FACTORS).
ON EXPENDITURE SIDE, TURIN CITY GIUNTA MET SOME MAY 1975
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ELECTION PROMISES BY TAKING ON SOME ADDITIONAL EMPLOYEES,
NOT RAISING SOME PRICES FOR PUBLIC SERVICES AND INSTITUTING
A FEW LOW-COST MUNICIPAL EFFORTS# BUT SO FAR, OTHER MORE
COSTLY PROMISED PROJECTS HAVE YET TO BE UNDERTAKEN.
MOUNTING DEBT PROBLEMS SUGGEST THAT PUBLIC FINANCING WILL
ATTRACT EVEN GREATER PUBLIC ATTENTION AND POLITICAL CONCERN
IN THE FUTURE.

C. WE FIND SIGNIFICANT COMMENT OF ONE INSIDE OBSERVER
REGARDING CITY S ADMINISTRATION AND ITS INABILITY TO
OBTAIN ADEQUATE LOCAL FINANCIAL ASSISTANCE: FACT THAT MAJOR
CREDIT INSTITUTIONS IN THIS AREA ARE STILL CONTROLLED
BY DC. WHILE LEFT HAS OBTAINED SIGNIFICANT POLITICAL
POWER IN TURIN, INFLUENCE ON FUNCTIONAL LEVELS SUCH AS
FINANCIAL INSTITUTIONS IS ALMOST NON-EXISTENT. SPECULATION
IN TURIN BUSINESS CIRCLES IS THAT CITY S LEFTIST GIUNTA
HAS BEGUN TO REALIZE FINANCIAL IMPOTENCY OF ITS ADMINISTRA-
TION AND WILL BE MAKING SERIOUS EFFORTS WITHIN NEAR
FUTURE TO RESOLVE THIS PROBLEM, PARTICULARLY IN BANKING
SECTOR BY PRESSING FOR INSERTION OF PCI-PSI OFFICIALS IN
COMMERCIAL BANK MANAGEMENT POSITIONS. THIS QUESTION IS
PARTICULARLY TIMELY GIVEN VACANCIES OCCURRING LATTER PART
OF JANUARY IN 41 POSITIONS IN BANKS THROUGHOUT ITALY.
THESE POSITIONS ARE RESERVED FOR OFFICIALS FROM VARIOUS
POLITICAL PARTIES AND SOME SAY STAMMATI MADE HIS MOVE IN
EARLY JANUARY IN ORDER TO BE IN STRONGER BARGAINING POSI-
TION RE DEMANDS BY PCI-PSI FOR SUCH KEY BANKING POSITIONS.
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Message Attributes

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